

A Work Project, presented as part of the requirements for the Award of a Master Degree in
Management from the NOVA School of Business and Economics.

**THE CONSUMER DECISION JOURNEY IN THE HAIR CARE CATEGORY IN
THE HARD-DISCOUNT CHANNEL**

**Opportunities and Challenges that Lidl should address to grow this category in its stores
in Portugal**

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I. Abstract

Lidl in Portugal is in the process of developing its personal care range, under the brand *Cien*. This Work Project focuses on the hair care category and its main objective is to identify the challenges and opportunities that Lidl should address in order to grow this category in its stores in Portugal. After analysing secondary data, we developed research based on in-store observations, having identified the articulation between manufacturer brands and distributor brands as the main challenge for growth in this category.

II. Key Words

Consumer decision journey, hair care, hard discounters, Lidl.

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1. Introduction

I am currently working for Lidl at the Buying Department, specifically, in the manufacturer brands division. As such, I selected my research topic in accordance with my future role as Buyer for the Home and Personal Care categories.

This Work Project's (WP) main objective is to understand the consumer decision journey in the hair care category, in the discount channel, particularly at Lidl in Portugal. This analysis allows to infer recommendations for Lidl in order to grow in this category in the Portuguese market.

Lidl is extremely strict in terms of confidential data and, as such, I am unfortunately unable to provide any data related to this retailer's own measures, which constitutes a strong limitation to this research. Nevertheless, I believe that this analysis and respective recommendations can add value to Lidl in Portugal.

2. Contextual Background

Taking into account this WP's objective, we analyse in the present section literature on the New Consumer Decision Journey, literature on Distributor Brands, specifically hard-discounters, literature on New Distribution Strategies, and, finally, the Hair Care Category in the grocery channels in Portugal.

2.1. The New Consumer Decision Journey

For many years, the “funnel” metaphor has been used in Brand Management to describe the process a consumer goes through when making a purchasing decision. It describes a linear process, in which the consumer methodically narrows down an initial, wide array of brands into a final purchasing decision. Often associated with the AIDA-model (1925) (an acronym which stands for Awareness, Interest, Desire, and Action), the funnel approach is a staged process, as consumers move from brand awareness through consideration to brand purchase (Boncheck et al., 2014). According to the funnel

model, after the purchase the relationship with the brand typically ceases or is reduced to the use of the product or service itself.

This funnel approach has been challenged recently. According to many researchers and practitioners, it no longer describes, “all the touch points and key buying factors resulting from the explosion of product choices and digital channels, coupled with the emergence of an increasingly discerning, well-informed consumer” (Court et al., 2009). McKinsey & Company has developed “The Consumer Decision Journey” (2009; 2015), a more complex model, where the multitude of touch points and influences a consumer experiences is the base for the new decision-making process. The namesake model presents a circular journey that encompasses four main phases: (1) initial consideration, (2) active evaluation, (3) purchase, and (4) post-purchase (Figure 1).

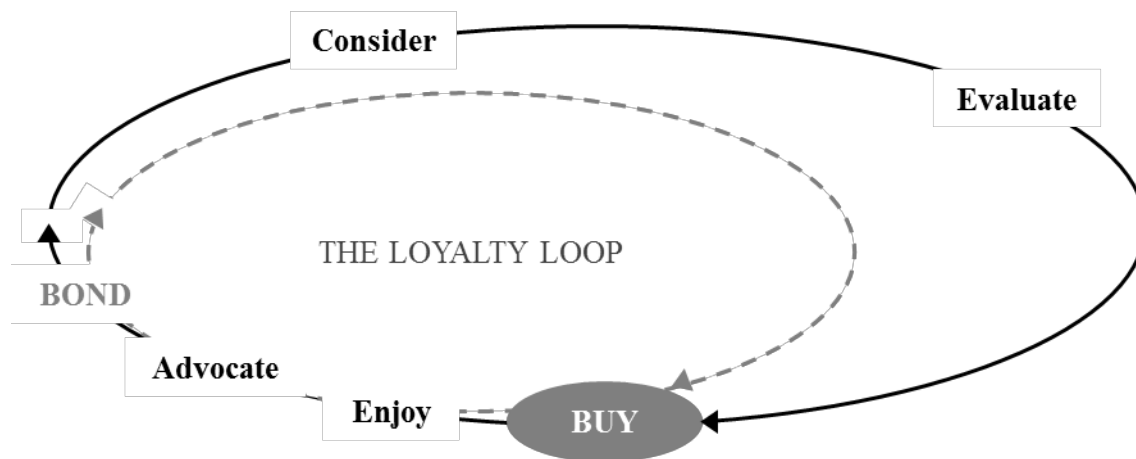


Figure 1 - The New Consumer Decision Journey (McKinsey & Company, 2009; 2015)

The first stage comprises of the consumer’s top-of-mind consideration set: the products or brands the consumer has been exposed to, either from marketing-related activities (such as advertisements or store displays), community interactions (such as an encounter at a friend’s house), or other stimuli (Edelman, 2010). In the old funnel approach, all the brands the consumer had been exposed to and was aware of were considered part of the initial-consideration set. However, McKinsey’s research shows that “the fragmenting media and the proliferation of products have (...) made [consumers] reduce the number of brands they consider at the outset” (Court et al., 2009).

This does not mean, however, that all other brands from the category are henceforth excluded from the purchasing decision. In the second stage, “active evaluation”, the consumer adds and subtracts brands to the set, as he learns more from his peer community, both online and offline, retailers, and brands themselves (see Appendix 1). While the funnel metaphor represented one-way, push-style marketing activities, from the brand to the consumer, McKinsey’s research found that two-thirds of the touch points during the active-evaluation phase involve consumer-driven marketing activities (2009).

The third stage, “purchase”, represents the moment the consumer buys the product or service.

In Europe, only 35% of times will a consumer buy a brand that was in the original consideration set (adapted from da Silveira, 2016).

Finally, the last stage of the new consumer decision journey is “post-purchase”. The post-purchase experience a consumer has with a product or service shapes his opinion for every subsequent decision in the category, closing the circular journey. However, and although loyalty has always been an important driver for repurchase, it takes an even more significant role in today’s competitive environment (Court et al., 2009). From consumers who can be considered loyal to a brand, we can differentiate between active loyalists, that not only keep repurchasing the brand but also advocate for it, and passive loyalists, who may repurchase the brand but are not necessarily committed to communicating it. These consumers are open to competitors’ messages and, thus, to brand switching, as a result of “laziness or [the] confusion caused by the dizzying array of choices” (Edelman, 2010). In 2006, Reichheld showed that “the rate of promoters among the consumer base is directly correlated to the growth rate of a company or brand” (in Kapferer, 2012, p. 121). Evidently, it is more important than ever to create a more meaningful, deeper relationship with the consumer, in an effort to expand the base of active loyalists. This, in turn, may result in the consumer entering an enjoy-advocate-buy loop that completely sidesteps the consideration and evaluation stages of the consumer decision journey (Edelman, 2010).

2.2. Distributor Brands

Manufacturer brands have long dominated the mass-consumption markets. For retailers, manufacturer brands generated (and still generate) high gross margins and help to create an image and establish a position that leads to consumer interest and loyalty to a store (Keller et al., 2012). However, and although distributor brands have long existed, more recent, harder economic times have led to the rise of distributors' brands, on average 30 per cent lower in price than manufacturer brands (Kotler, 2017). Nevertheless, it must be said that distributor brands are "not a phenomenon linked to income" (Kapferer, 2012, p. 97). Switzerland, the United Kingdom and Germany are three of the world's richest countries, but distributors' brands thrive in these economies: in Switzerland, distributor brands have a 45% value share, while this number sits at 41% and 34% in the United Kingdom and in Germany, respectively (Nielsen, 2014). The same can be said for France, the Netherlands and Scandinavia, for example. Additionally, distributor brands account for \$1 of every 3\$ in the consumer packaged goods (CPG) European market (Nielsen, 2014).

Distributor brands are now part of the competitive environment in all sectors, from groceries and pharmaceuticals to cosmetics and automobile equipment (Kapferer, 2012). However, they are particularly successful in categories with a low degree of involvement (Kapferer and Laurent, 1995): according to Kapferer (2012, pp. 101-102), manufacturer "brands exist wherever [consumers] perceive a high risk in purchasing", while distributors' brands prosper when consumers associate no risk to the category, especially if they consider the "distributor to have a good reputation and an image of quality".

2.2.1. Distributor Brands' Strategic Management

As described by Kapferer (2012), when distributors set about developing their own brands, they typically do so in three stages. The first stage, known as *oblative*, results either as response to a manufacturer's refusal of sale, or from identifying gaps in existing ranges of products. At Lidl (to be

discussed further ahead), national and international category reviews are held on a regular basis, in order to identify these gaps that offer the most market potential.

The *imitative* stage follows, when the distributor develops its own products, after carefully analyzing manufacturers' and other distributors' brand ranges. Leading references from across the market are evaluated (research by Kapferer and Thoenig, 1992, has shown that the unconscious recognition factors for consumers are, in decreasing order of importance: colour, packaging shape, key designs, and name and typography), with 80% of product's characteristics defined by those of the already-successful, soon-to-be imitated product. Rarely do distributors create innovation. Not only they do not have the resources to do so (their products' low-price is achieved through small or non-existent R&D budgets), but the business model itself is based on copying "to within a few details (...) what is already working" (Kapferer, 2012, p. 99).

The third and last stage is the *identity* stage, when the "distributor brand is used to capture market share from the competitors, (...) [becoming] a genuine instrument of strategic differentiation, expressing the identity, values, and positioning of the store [brand] itself" (Kapferer, 2012, p. 105). This is the stage for loyalty creation, not just for the distributor brand, but also for the distributor itself. Unfortunately, loyalty is a particularly difficult subject for distributors, as research conducted by C. Terrasse (2006) indicates that "the repeat purchase rate of the distributor brand is always contingent on the price: (...) consumers keep an eye on price differences on the shelf". With manufacturer brands, however, brand engagement¹ is not hard to achieve: the more consumers are engaged with the brand, the "less they will seek variety when shopping in the aisle, and the less sensitive they will be to price" (Kapferer, 2012, p. 101). As such, it is more important than ever that there is coherence among each distributor brand, representative of a distinctive brand project, and the distributor's idiosyncratic values.

¹ Kotler and Keller (2013, p.30) define brand engagement as the "extent of a customer's attention and active involvement with a communication, which is more likely to create value for the firm".

2.2.2. Evolution of Distributor Brands

Several different brand realities may result from the brand development process described above, depending on how the distributor positions its brand(s)² on two dimensions: the level of added value, and the nominal relationship to the store. Regarding the former, at the bottom of the scale are low-cost products, characterized by a “minimalist conception of quality” (Kapferer, 2012, p. 97), while at the other extreme sit the products with a high experiential value (for example, Monoprix in France, and Tesco Finest in the United Kingdom).

So far in this Work Project, no distinction has been made between the characteristics of a traditional distributor brand and those of a hard-discounter. It is important to note that the latter cannot be compared to low-cost products. Hard-discounters, such as Lidl, find their extremely low prices through economies of scale and inter-country synergies, and not by cutbacks on product quality: hard-discounters set specific, non-negotiable quality specifications with their suppliers, which will then produce extremely large quantities.

In terms of the nominal relation to the store, three situations may occur: the distributor brand carries only the name/logo of the retailer, the distributor brand carries not only the name/logo of the retailer but also a sub-brand created specifically for its product category, or the category has its own brand and the retailer brand is not communicated to the consumer (e.g. *Cien* at Lidl and *MyLabel* at Continente for the beauty/personal care category).

In the case of Lidl, this retailer has recently changed its strategy in order to follow a range brand architecture, that is, the Lidl brand is hidden but a range brand has been created for each category of products: yoghurts are sold under the brand *Milbona*, home care products are branded *W5*, and cosmetic and personal care products are branded *Cien*, for example. These brands are managed

² We will explain later in this section that distributors may use their own retailer brand and/or create brands for some product categories.

separately, each by its own brand manager³. This evolution is an on-going process, but the majority of categories have already been rebranded.

2.3. Hard Discounters

The rise of distributor brands' penetration (in 2014, distributor brands accounted for \$1 of every \$3 spent in the consumer packaged goods (CPG) market in Europe, while in Portugal they grew 8% between the years 2009 and 2014 (Nielsen, 2014)) and, thus, the shifting paradigm in the retail industry has had obvious consequences for traditional marketing activities. But before we delve deeper into this topic, an analysis on hard-discounters and their business model must be presented. Important to note that, at a company level (both Lidl and Aldi), the denomination "hard-discounter" is no longer used, having been replaced by "smart discounter" or even just "discounter". This is because the business model itself has evolved since its initial days (for example, products are no longer sold by the pallet, and store displays have been given increased attention). Nevertheless, literature has yet to adopt these terms and, in order to ensure consistency, we will use the term "hard-discounter" throughout this WP.

Many times associated with lower-income consumers, hard-discounters have paradoxically been most successful in strong economies with high purchasing power. The concept itself was first developed in post-war Germany by Aldi, and a few years later by Lidl. Nowadays, the two retailers control approximately 16% (in value) of the German FMCG market (GfK Consumer Panel, December 2016). In Portugal, Lidl captures 8% of market share and grew 16,2% in the year 2016, well above the market's 4,4% growth rate (Nielsen Homescan, December 2016). Hard-discounters business model involves offering a quality product at the lowest possible price – Lidl's motto is, in fact, 'the best quality, at the best price'. This is achieved by eliminating all unnecessary⁴ costs (such as R&D and sophisticated merchandising), by maximizing the sales potential through a reduced product assortment, and by creating long-term relationships with suppliers. Moreover, and due to the

³ At Lidl, the category's Buyer takes on the role of brand manager as well.

⁴ 'Unnecessary' within this context should be understood as "not required" for a hard-discounter.

sheer magnitude of European hard-discounters, these have created huge economies of scale that further allow them to reduce costs. All put together, hard-discounters are able to offer an “[unbeatable] quality/price ratio” (Kapferer, 2012, p. 224). Kapferer argues that, more than just offering a tangible economic value, hard-discounters “advocate a form of intangible value: the return to a kind of simplicity for people who are not limited to it by a lack of resources. (...) [Hard discounters represent] a search for purification of one’s life, de-pollution, and liberation from imposed constraints” (Kapferer, 2012, p. 223). Thus, modern competition has expanded, as consumers experiment with new channels of distribution and find themselves re-evaluating brands and their added value (Kapferer, 2012). Altogether, the rise of distributors’ brands (either from traditional retailers or hard-discounters) tends to demonstrate why a new reality of brands is replacing manufacturer brands on the shelves and in consumer choices.

2.4. New Distribution Strategies

2.4.1. Consumer Perceptions

In the old, traditional approach to marketing, manufacturer brands would follow a ‘brand building’ model. A superior product would be created as a response to a need expressed by the consumers and that competitors were not fulfilling to the greatest extent. This product would then be distributed and a large promotional campaign was done in order to promote trial, prior to re-purchase and loyalty formation (Kapferer, 2012). However, nowadays consumers' perceptions of branded products have changed, as retailers can quickly react to this new product and produce a similar one under their own distributor brand, selling it at a much lower price. Consumers are then confronted with high price differences for very similar products, so that the perceived difference in quality between the manufacturer and distributor products is much smaller than the price differential (da Silveira, 2016). “Consumers can thus make considerable savings (...) by buying distributor brand products with an equivalent degree of functional satisfaction. The loss in terms of function is minimal when compared with the economy achieved” (Kapferer, 2012, p. 123). To prevent this decrease in the perceived

quality gap, and in order to justify their higher prices, manufacturers must keep launching new innovative products. If they do not do so, they will progressively be replaced by distributor brands (adapted from da Silveira, 2016).

2.4.2. Promotional Activity by Manufacturer Brands

Manufacturer brands also use changing prices (i.e. promotions) in order to motivate consumers to purchase their products and become more competitive. Distributor brands cannot use this pricing strategy, as most often they do not have the margins to do so (see Appendix 2). However, if manufacturer brands spend too much of their budgets on promotional activities, they will not have the necessary financial resources to invest in innovation. This would mean that the gap in perceived quality between manufacturer and distributor brands would soon disappear, and consumers would be driven towards the latter (adapted from Unilever presentation at Nova SBE, 2015).

During the year of 2016 in Portugal, approximately 33% of the value generated in the FMCG market was sold in promotion (Nielsen Homescan, February 2017), while at Lidl this value drops to 22%. Pingo Doce and Continente, the two biggest retailers in Portugal (they together control over 50% of the market), show the highest level of promotional activity at 48% and 39%, respectively, of their entire FMCG market value (Nielsen Homescan, February 2017)⁵.

2.4.3. Margins: Manufacturer Brands vs Private Label

In recent years, the growth of distributor brands share has slowed down in Portugal. This is because another new reality appeared: overall store margins decreased with the growth of distributor brands. As mentioned, private labels⁶ tend to generate lower margins for retailers than manufacturer brands, meaning that retailers would lose sales revenues once distributor brands got too big. In Portugal, retailers understood that they would have to slow down the growth of their own brands in order to

⁵ For comparison terms, during the in-store observational period of this Work Project (17th to 30th of April), Lidl made only one hair care promotion ('2 for 1' in *Head & Shoulders* Shampoo), while Continente advertised price-based promotions for 10 manufacturer brands (*Elvive*, *Garnier Fructis*, *Gliss*, *Head & Shoulders*, *Herbal Essences*, *Linic*, *Pantene Pro V*, *Syoss*, *Tresemmé*, *Ultra Suave*).

⁶ 'Private Label' is also used in literature to denote distributor brands. In this WP, both terms will be used interchangeably.

maintain their overall margins: Continente distributor brands' sales decreased by 0.9% in the 12 months leading up to February 2017 (Nielsen Homescan, February 2017). This paradigm is obviously not applicable to hard-discounters, such as Lidl, whose core business and mission is the growth of their private labels.

2.5. Hair Care Category in the Grocery Channels⁷

In general terms, the hair care category can be divided into four main sub-categories: shampoo, conditioners, styling agents, and colourants. In Portugal, the shampoo sub-category dominates in terms of value: in the 12 months prior to May 2016, it represented 50% of total category value (Nielsen Homescan, May 2016), having reached almost €82 million in the year leading up to March 2017 (Nielsen Homescan, March 2017).

The hair care category has declined in terms of value in the last few years, although it is showing some signs of recovery: negligible growth was recorded during the year of 2016 (Nielsen Homescan Annual Directory, 2016; Euromonitor International, April 2017). Although the shampoo sub-category is still declining in value (it lost €6 million in the last three years), conditioners showed a 2.8% value growth in the year 2016 (Nielsen, March 2017). Important to note that this trend is only applicable to category value. In terms of volume, the hair care category has consistently been growing: for example, the shampoo sub-category grew 0.9% in volume in the 12 months leading up to March 2017. This can be explained by the heavy promotional activity observable in Portugal: in the year 2015, manufacturer brands sold an average of 57% of volume in promotion; some brands, such as *Syoss* and *Gliss*, this number reached 80% (Nielsen, August 2016).

The hair care category is dominated by manufacturer brands, that control over 95% of the market (Nielsen Homescan, May 2016). The shampoo sub-category is dominated by L'Oréal and Procter & Gamble, two manufacturers that together represent more than 65% of sub-category value and 57% of

⁷ For the purpose of this Work Project, only the grocery channel is considered, meaning that the professional, specialized and pharmaceutical channels are not presented.

volume (Nielsen Homescan, March 2017). Pantene (Procter & Gamble), Ultra Suave and Elvive (both from L'Oréal) are the leading brands in this segment (see Appendix 3 for Shampoo brand shares). Regarding Lidl, growth in the hair care category has been driven by its category distributor brand – *Cien* -, which now represents more than 38% of sales in the category. Contrastingly, in the year prior to May 2016, all other retailers grew in this segment by means of manufacturer brands, while Continente's and Pingo Doce's private labels represent, respectively, only 2,8% and 3,3% of sales value (Nielsen Homescan, May 2016).

3. Addressing the Work Project Objective

3.1. Methodology

The WP objective leads us to the following research question: “How do Lidl-shoppers make purchasing decisions in the hair-care category?”. In order to address this question, we conducted research based on consumers' observation in store.

For the purpose of maintaining observed consumers ('O.C.') unaware of observation and in order to reduce as much as possible the 'observer effect' (Saunders et al., 2009), disguised observation was used during this research. The three observers (the researcher and two other Lidl employees) were disguised either as sales clerks or as shoppers.

In order to evaluate the purchasing behaviour as it takes places normally, this research took place in the natural environment: observations were recorded at 7 different Lidl stores, all in the Greater Lisbon Area (Avenida Infante Dom Henrique, Laranjeiras – Avenida Lusíada, Avenida Visconde Valbom, Mercado de Alcantâra, Mem Martins, Sassoeiros, and Pragal) and during regular store hours (9 A.M. to 9 P.M.). These observations were carried out from the 17th to the 30th of April. The data collected was then manually analysed using a pattern analysis. We detail below the methodology:

3.1.1. Structure

An observation grid was developed (Appendix 4), divided into four main areas of research:

“Demographic Information”, “Approach to the Hair Care Category”, “Purchasing Decisions”, and “Observational Annotations”.

3.1.1.1. Demographic Information

Regarding demographic information, only two variables were analysed, gender and estimation of age, as these were the only two perceivable characteristics that did not require any interaction with the observed consumers.

3.1.1.2. Approach to the Hair Care Category

The Approach to the Hair Care Category section uncovered three main aspects of behaviour: A) approach, B) evaluation criteria, and C) decision time.

A) Approach pertains to how the O.C. approached the hair care area of the beauty aisle of the stores: did they go directly towards a specific product⁸, did they consider multiple articles⁸ but only within a certain brand, did they exclusively look at a specific sub-category of the hair care area and ignored the others, or did they consider the entire assortment of hair-related products and brands (‘assortment’)? The next step was to record which sub-categories, and in what order, were considered by O.C.: Shampoo, Conditioner, Styling, and/or Deep Conditioner. If the O.C. considered all these categories but in no specific order, then the observer was to write-down ‘Assortment’ in this section. If the observation took place in the ‘Aktion’⁹ aisle (i.e. area of the store reserved solely for on-going promotions and in a different location than the hair care aisle), then the observer would also record this situation.

B) The next variable to be observed was the evaluation criteria used by O.C. to make a purchasing decision. The observer was also to rank these criteria in accordance to the steps taken by the O.C. Six

⁸ In its business vocabulary, Lidl uses the word ‘article’ when referring to a specific product. This derives from the German word ‘artikel’. As such, ‘article’ and ‘product’ are used interchangeably in this work.

⁹ ‘Aktion’ is German for ‘action’ and is used at Lidl as synonym to ‘promotional activity’ (not necessarily in terms of price).

options were available: Promo (in case the O.C.'s attention was caught by the typically striking orange price list that indicates on-going promotions), Price (if observable that an O.C. took into account an article's price list), Smell (if the O.C. picked up an article, opened it, and smelled it), Labelling – Front (if an O.C. showed significant interest in the front labelling of an article), Labelling – Back (if a O.C. picked up an article in order to read the information on its back), and Other (in case the O.C.'s evaluation criteria were unobservable, such as taking into account the entire assortment but not showing genuine interest in a particular product's features).

C) The final variable to be observed, within the 'Approach to the Hair Care Category' section, was 'Decision Time'. The observer was to record how long it took the O.C. to reach a final purchasing decision, that is, how long it took a shopper to either pick up an article and place it the shopping cart/basket or to move along to another section of the store without purchasing any hair care products.

3.1.1.3. Purchasing Decisions

If an O.C. did, indeed, place an article in the shopping cart, then the observer was to record which article, in what quantities and at what price, indicating whether it was in promotion or not. In order to reduce the risk of writing down the wrong article and to ensure consistency across all records, it was made available to each observer a table depicting the name, brand, category, description, price, and size of all hair care products sold at Lidl during the observation period (Appendix 5).

3.1.1.4. Observation Annotations

Finally, the observer was to write down any additional comments deemed relevant to the purpose of the observation. This information was later analysed and, if pertinent, incorporated into the analysis of the data collected.


3.2. Data Analysis of the Observations

3.2.1. Behaviour towards the Hair Care Category

Overall, we observed a total of 116 consumers who approached the hair care area of the studied stores and demonstrated significant interest in the products available. Among the O.C., 64 of them bought

Summary of Recorded Observations

at least one product from the hair care category. A summary of the data collected can be found in the following Table:

	Consideration Stage	Evaluation Stage	Purchase
Observed Consumers n = 116			Direct Purchase Two behaviours observed: <ul style="list-style-type: none"> ▪ O.C. chose product based on on-going promotion – Head & Shoulders Shampoo (n = 12) ▪ O.C. purchased right away one product – Cien Hair Lacquer (n = 10) (Loyalty Loop)
	Sub-Category Consideration <ul style="list-style-type: none"> ▪ Shampoo (n = 14) ▪ Conditioner (n = 7) ▪ Styling (n = 1) ▪ Deep Conditioner (n = 1) 	Sub-category Evaluation Evaluation Criteria <ul style="list-style-type: none"> ▪ n° 1: Labelling – Front (n = 21)¹; ▪ n° 2: Price (n = 22)¹ ▪ n° 3: Labelling – Back (n = 2) ▪ n° 4: Smell (n = 5) 	<ul style="list-style-type: none"> ▪ Closure Rate = 86% (n = 19) ▪ Cien = 74% (n = 14) ▪ Manufacturer Brands = 26% (n = 5)
	Assortment Consideration <ul style="list-style-type: none"> ▪ O.C. considered entire hair care assortment rather than specific sub-category 	Assortment Evaluation <ul style="list-style-type: none"> ▪ No behavioural indication of specific criterion (n = 49) ▪ If O.C. demonstrated a specific criterion: <ul style="list-style-type: none"> ▪ n° 1: Labelling – Front (n = 15) ▪ n° 2: Price (n = 14) ▪ n° 3: Labelling – Back (n = 10) ▪ n° 4: Smell (n = 9) 	<ul style="list-style-type: none"> ▪ Closure Rate = 23% (n = 15) ▪ Cien = 100% <ul style="list-style-type: none"> ▪ Cien Argan Oil = 67 % (n = 10)
		Other	
	n = 22		
	n = 22		
	n = 64		
	n = 8		

¹Price was checked by all of the 22 O.C., but usually as the second criterion, after the Labelling – Front.

Table 1 – Summary table of in-store observations from 1^{7th} to 30th of April.

From the observations recorded, two main behaviours could be drawn out: the majority of observed consumers approached the hair care category at the assortment level, while approximately 20% of them approached a specific sub-category.

Consider

55% of O.C. (n = 64) considered the entire hair care assortment

Evaluate

Only 15 O.C. showed behaviour indication of evaluation criterion.
Order of evaluation criteria:
1. Labeling Front
2. Price
3. Labeling Back
4. Smell

Enjoy

BUY

Advocate

BOND

THE LOYALTY LOOP

All of these 15 O.C. proceeded to purchase an hair care article.
▪ 10 O.C. bought Cien Argan Oil

“Second” behaviour: For those O.C. who approached the hair care category not in terms of the assortment but rather in terms of a specific sub-category, it is also possible to retrace their consumer

decision journey. Due to insufficient number of observations within this second behaviour, this can only be done for the Shampoo category. In itself, the fact that the 14 O.C. considered this entire sub-category, with all the brands and products available, means that these shoppers are not loyal to a particular brand or product. This is also supported by the longer decision time (in comparison to those O.C. who approached a specific article – to be discussed in section 3.2.3) that these shoppers took to reach a decision: on average, each shopper spent 70 seconds deciding whether to buy a Shampoo and/or which Shampoo to buy. Moreover, price took a significant role in decision-making: it was the first evaluation criterion used by 9 of the O.C., and the second criterion used by the remaining 5. The front labelling also took a significant role, as it was evaluated by 13 of the O.C. It is also important to note that none of the observations evaluated the back labelling of the product, and only three of the O.C. smelled it. Out of the 14 recorded observations, 11 of the shoppers proceeded to place a Shampoo article on their shopping cart: 7 O.C. purchased a Cien Shampoo, while the other 4 purchased a manufacturer brand (Pantene and Head & Shoulders). Not only did all of these shoppers only purchase one single Shampoo article, but they also did not buy any product from any other hair care category (e.g. Conditioner). The sample of O.C. that showed this behaviour can be characterized as all female, with two shoppers between the ages of 18 and 25, four between 36 and 50 years old, four between the ages of 51 and 65, and one last O.C. older than 65 years old. The following Figure depicts the consumer decision journey for the second behaviour (related to the Shampoo sub-category):

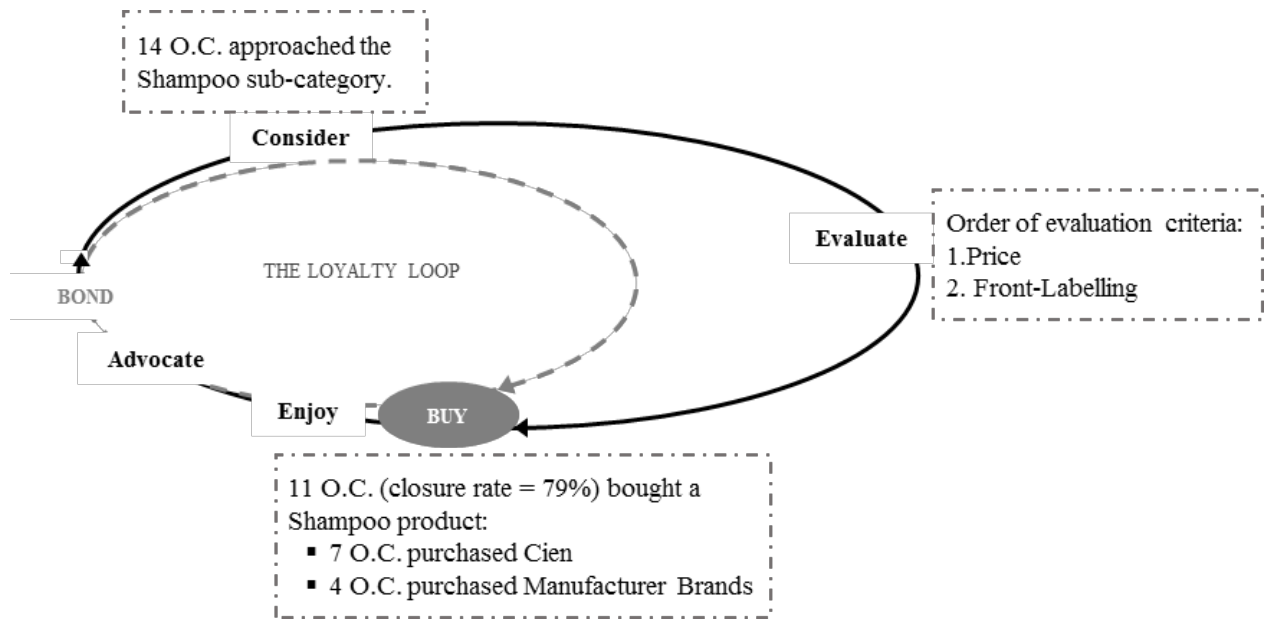


Figure 3 - Consumer Decision Journey for the Shampoo sub-category.

3.2.3. Specific Journeys

Three products generated specific journeys. Two of them, Cien Hair Lacquer and Head & Shoulders Shampoo, because of the ‘direct purchase’ behaviour demonstrated by shoppers, and one of them, Cien Argan Oil, because of the novelty effect generated on O.C..

3.2.3.1. Cien Hair Lacquer’s Journey

The data collected shows that there is one product whose shoppers are in a clear loyalty loop: Cien Hair Lacquer 400 mL. Out of the 11 O.C. who bought this product, all except one went straight up to it, neglecting all other surrounding products. Moreover, 7 of the O.C. evaluated the article solely based on its front labelling, making sure they were taking the right variety of the product. The other 4 shoppers took into consideration another criterion, price, but always after reading the front labelling. Altogether, this translates into an extremely short decision time: on average, each O.C. took 30 seconds to reach a decision, while the median value was even lower, at 20 seconds. The O.C.’s demographic data also shows a clear trend: 10 out of 11 shoppers were females older than 50 years old (five shoppers aged between 51 and 65 years old and five other older than 65 years old).

3.2.3.2. Head & Shoulders Shampoo's Journey

The observational data also showed another trend regarding another product, Head & Shoulders Shampoo. This product had a '2 For 1' promotion from the 27th to the 30th of April, and instead of being placed in the hair care aisle, it was displayed in the 'Aktion' area of the store. During the aforementioned period, Head & Shoulders Shampoo was the only hair care product placed in this section of the store (and the only hair care product with a discount during the entire period of observations). From the 17th to the 26th of April (before the promotion), only 3 O.C. bought this product, and only one article at a time. However, during the promotion period (27th to the 30th of April), 12 observations were recorded, totalling to 24 articles being sold. Because the product was sold in a secluded area of the store, with no other hair care products to compare, the O.C. skipped the consideration and evaluation stages of the new consumer decision journey altogether, moving straight to purchase. However, one cannot say that these shoppers are in a loyalty loop with this article: sales records¹⁰ and observational data show that there was an exponential increase in sales during the promotional period, most likely due to the discount associated with a specific location in store and not because of loyalty towards the product. Just like Cien Hair Lacquer, so does Head & Shoulders Shampoo's shopper data show a demographic pattern, in this case, in terms of age: the majority of O.C. were middle-aged, with eleven shoppers between the ages of 51 and 65 and three shoppers between the age of 36 and 50. Out of all products purchased by the entire sample of O.C., Head & Shoulders Shampoo is also the product most purchased by males. This is hardly surprising, as in Portugal this brand has historically been marketed towards men.

3.2.3.3. Cien Argan Oil's Journey

Eleven O.C. placed Cien Argan Oil in their shopping cart. Out of these, 10 shoppers were browsing around the hair care area, paying no attention to a specific category or product, when they came across Cien Argan Oil. All of the O.C. then proceeded to pick up this article, carefully reading the front

¹⁰ Unpublishable due to confidentiality reasons.

labelling of the product. After this first evaluation stage, O.C.'s behaviour diverged: 5 shoppers continued reading the back labelling, 3 O.C. looked at the price, and the other 3 sprayed some of the product on their hands, smelling it and testing its texture. Although price was the second evaluation criterion for only 5 of the O.C., all others considered this criterion somewhere in their evaluation stage (6 shoppers used price as the third criterion and 2 others as the fourth criterion). Because there are no close substitutes to Cien Argan Oil in Lidl's assortment (i.e. other hydrating oils), and because none of the shoppers who bought this product compared it with other hair care category products, it may be said that shoppers disregarded the consideration stage of the new consumer decision journey. However, when it comes to the evaluation stage, shoppers make a deep analysis of the product, taking into consideration at least 3 criteria, always starting with the front labelling and always considering the price. Moreover, when the O.C. got to the third stage of the new consumer decision journey, purchase, all of them placed Cien Argan Oil in their shopping cart. However, no conclusion can be drawn regarding loyalty towards this product: observations showed that this product is still unknown to consumers, having been available in Lidl stores for less than a year, as shoppers clearly demonstrated in their behaviour that they did not know the product beforehand – no apparent repeat purchases were recorded.

3.2.4. Additional Insights from the Observations

From the overall observational research, five additional findings can be drawn.

1. The first pertains to the frequency of shoppers in the hair care area of the store. Lidl's floor plans are standardized across all stores, meaning that hair care products are placed in the personal and home care (PHC) aisle of each store, more specifically, in the corridor furthest from the store's entry point. Throughout this research, we discovered that this aisle has significantly slower movement than other areas of the store. This is because of two main reasons: first, products placed in this corridor have long usage lives (a powder detergent can last dozens of servings, just like a bottle of shampoo tends to last several weeks); and second, these products tend to have a higher price point, meaning that shoppers

tend to purchase them only when replacement is necessary. As a consequence, shoppers do not usually enter this aisle by impulse; they only do so when a specific product from their shopping list (not necessarily written-down on paper) is needed. This behaviour was translated into the observations recorded. Many O.C., specifically those recorded with an 'Assortment' approach to the category, entered the PHC aisle looking for a specific product not belonging to the hair care category (for example, cotton pads, floor detergent, shower gel, etc.). It was only after gathering that pre-selected article that they would take the opportunity to browse around the hair care assortment, most often not buying any hair-related products. There is, however, one deviation from this 'shopping list' behaviour, pertaining to Cien's Facial Care line. In recent months, this line of products, more specifically, Cien Aqua Moisturising Cream, has gain significant notoriety after winning the 'Best Day Moisturising Cream' award, granted by Deco ProTeste. Our research showed that this is a product that drives shoppers into the beauty area of the store, even if a moisturising cream was not initially on their shopping list. Once there, shoppers tend to look around the neighbouring categories, such as the hair care assortment, and just as described in the aforementioned 'shopping list' behaviour.

2. The second finding our research revealed concerns the increase in shopper frequency and sales at the end of the month. In Portugal, the majority of employed people receives their monthly wage on the last week and a half of the month. During our research, public employees were paid between the 20th and 23rd of April, while workers from the private sector were paid on the 27th of April. It is at this time of the month that shoppers have a higher purchasing power and, thus, when most shopping takes place, particularly for non-perishable goods such as hair care products. We recorded not only an increase in the number of shoppers in the studied stores, but also an increase in movement in the hair care corridor, which translated into more recorded observations and more sales during this period.

3. Our third finding is connected to the high level of promotional activity used by manufacturer brands in Portugal. In just three days (from the 27th to 29th of April), the number of recorded observation for purchases of Head & Shoulders Shampoo increased by 4 times (in comparison to the previous ten

days), while sales of this article (in quantities) increased by 8 times due to the '2 for 1' promotion associated. This shows how Portuguese consumers are influenced by promotions and why manufacturer brands resort to these activities in order to compete not only between themselves but also with private labels. This relates to our fourth conclusion:

4. Unless a manufacturer brand is in promotion, Lidl hair care shoppers tend to choose Cien. During the last 5 months, Lidl has carried out an intensive brand building campaign for this private label, entitled "Intelligent Beauty". With this campaign, Lidl intends to relate a woman's beauty to her "smart-shopping" decisions, clearly stating in their TV and online advertisement "(...) being beautiful is to be perceptive (...): it is making the best choices. Nothing is more beautiful than intelligence". They then proceed to present the award-winning Cien Aqua. Sales records show that this campaign has been extremely successful, with an exponential increase in sales not only for this product but across the entire Cien range. During the period of observations, sales were dominated by Lidl's private label: nine out of the ten most sold articles are branded Cien, while Head & Shoulders Shampoo is the only entry from manufacturer brands. Lidl also tries to drive consumers to Cien by carefully deciding the appropriate shelf-display of products. In the hair care category, Cien is placed in the top three shelves, while manufacturer brands are constrained to the bottom shelf. That is, not only does Cien represent the majority of the assortment, but it is also placed at the consumers' eye-level, in order to incentive purchase.

5. Finally, our fifth insight pertains to loyalty: in exception to Cien Hair Lacquer, no other product or brand showed any signs of loyalty among Lidl shoppers. 86 out of 116 O.C. approached either the entire assortment of hair care products or a specific sub-category, always considering two or more comparable products (i.e. from the same sub-category) at a time. While it is true that Cien is the most sold brand, consumers also evaluate the comparable manufacturer brand product before reaching a final purchasing decision. This means that Cien products benefit from the presence in the shelves of comparable manufacturer brands, as benchmarks to evaluate prices.

4. Recommendations

From this Work Project research, recommendations can be drawn for Lidl in terms of opportunities and challenges that need to be addressed in order for Lidl to grow in the hair care category.

Although Lidl's primary mission is to grow its private label in the hair care category, it needs to keep manufacturer brands on shelves, at least to serve as referents to consumers in terms of price. However, this strategy raises another challenge: will manufacturer brands agree to serve mainly as benchmarks? In order to continue this strategy, Lidl must give some degree of exposure to manufacturer brands, in order to incentive them to stay in the hair care assortment.

Based on our research (and specifically on the Head & Shoulders example), allowing these manufacturer brands to be on promotion only in the Aktion area of the store, far away from the hair care corridor, is a good compromise for both manufacturer brands and Lidl. On one hand, manufacturer brands receive the required added exposure and are less likely to be affected by Cien's lower prices. On the other hand, it allows consumers shopping in the hair care aisle to compare Lidl's private label to manufacturer brands at standard prices (as promotions are not placed on the shelf). Although it is extremely important for Lidl to remain on its path for sustainable, long-term growth, it is also important to give to consumers what they are looking for. In Portugal, and particularly in the hair care category, consumers are extremely drawn to promotions, as our research has shown. And so Lidl must be able to combine both its objective to grow through non-promotional sales with its overall purpose of responding to consumers' needs.

In order to maximize revenues from hair care promotional activities (with manufacturer brands), while at the same time minimizing the frequency of promotions themselves, Lidl should focus its hair care 'Aktion' activities at the end of the month, as this is a more favourable period for purchases of hair care products, as our research has shown.

"Atypical products" that generate "atypical" behaviours and consumer journeys should also be used by Lidl to promote Cien. Cien Hair Lacquer's consumer journey demonstrates that consumers are

extremely loyal to this product. Lidl should try to convert these product loyalists into brand loyalists, incentivizing them to purchase other Cien hair care products. Additionally, Cien Argan Oil is a relatively recent and innovative product (in line with Cien Aqua Moisturizing Cream) that can be used to capture a younger consumer base and generate more brand awareness for Cien.

5. Work Project Limitations

Although mitigated as much as possible, there were some unavoidable limitations to this WP research. These limitations pertained to five main areas: sample size, time constraints, geographical limitations, and access to information.

The first three limitations are closely related. Because of the slow movement in the hair care aisle, the number of possible observations per hour was extremely low: the sale of hair care products during lunch hour (both on weekdays and on weekends) and until 3.30 P.M. was practically non-existent. Even during weekend rush hours (from 10.30 A.M. to 12.30 P.M. and from 6 P.M. to 7.30 P.M.), the hourly frequency of purchase for these products was very low: for example, on the 22nd of April, Saturday, and between the hours of 5.30 P.M. and 7 P.M., only 7 observations were recorded at Lidl's Mercado de Alcântara store, and only 4 of the O.C. bought a hair care product. Because of this low frequency of purchase, and given the time constraints (observations could only be carried out between the 17th and 30th of April, as this was the period observers were allowed to work at Lidl stores), it was impossible to gather a large sample size. Moreover, because of the small size of the task force (only 3 observers, working full-time at specific Lidl stores), it was not possible to conduct the observations in different regions of Portugal. As such, this Work Project was limited to the Greater Lisbon Area. In future research studies, these limitations can be addressed by having a larger task force, conducting observations in a wider geographical area and across a longer period of time.

The fourth limitation of this project pertains to how the evaluation criteria used by the O.C. was assessed by observers. Throughout the observation process, no interaction took place between the O.C. and the observers, meaning that the latter could only record the evaluation criteria that was

translated by some kind of behaviour. However, O.C. may not translate their 'thoughts into action' and, as such, other criteria, with different importance, may be evaluated by shoppers. This limitation can be overtaken in future research if, at the end of the decision journey, observers interview shoppers in order to dive deeper into their decision process.

The fifth and last limitation, access to information, also limited the scope of this WP. Due to confidentiality and data protection reasons, Lidl does not disclose any sales information. It would have been interesting to complement this study with other quantitative information, such as how sales vary across the year and within each month, and how product sales are affected by promotions.

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A Work Project, presented as part of the requirements for the Award of a Master Degree in
Management from the NOVA School of Business and Economics.

**THE CONSUMER DECISION JOURNEY IN THE HAIR CARE CATEGORY IN
THE HARD-DISCOUNT CHANNEL**

APPENDIX

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A Project carried out on the Master in Management Program, under the supervision of:

Prof. Catherine da Silveira

26th of May, 2017

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Appendix 1

In McKinsey's "New Consumer Decision Journey", researchers analysed consumers' purchasing behaviour across five different industries. They showed that the average number of brands considered for each industry varied, but also that this number varied within each sector depending on the stage of the new consumer decision journey.

Sector	Average number of brands	
	In initial-consideration set	Added in evaluation stage
Autos	3.8	2.2
Personal Computers	1.7	1.0
Skin Care	1.5	1.8
Telecom Carriers	1.5	0.9
Auto Insurance	3.2	1.4
Average	2.34	1.46

Figure 1 - Adding Brands: Adapted from McKinsey Quartely's 2009 "The Consumer Decision Journey".

Appendix 2

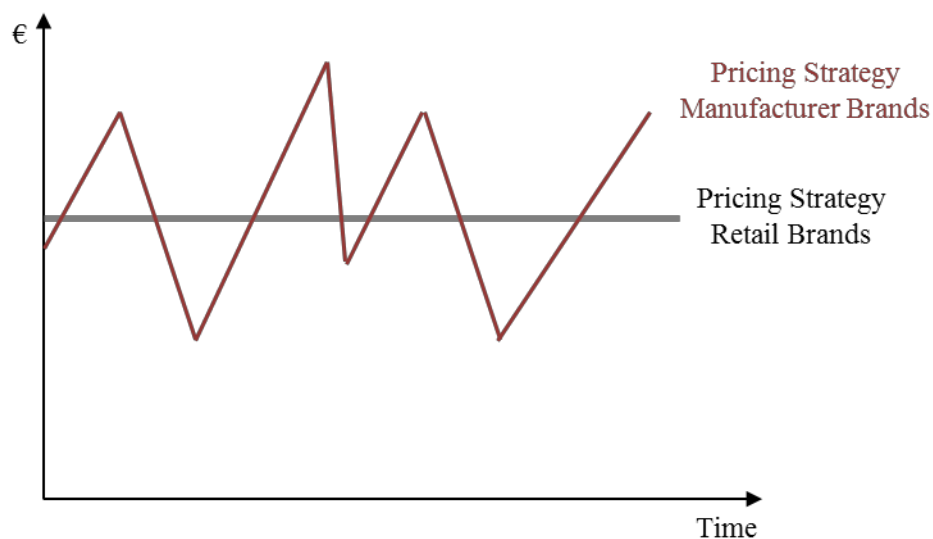


Figure 2 -- Pricing Strategies for Manufacturer and Distributor brands (adapted from Unilever presentation at Nova SBE, 2015).

Appendix 3

Brand	Manufacturer	Brand share (%)
Pantene	Procter & Gamble	21,4
Ultra Suave	L'Oréal	15,7
Elvive	L'Oréal	11,6
Head & Shoulders	Procter & Gamble	9,5
Fructis	L'Oréal	8,6
Linic	Unilever	7,9
Tresemmé	Unilever	5,3
Gliss	Henkel	3,2
Syoss	Henkel	2,1
Nivea	Beiersdorf	1,7
Top 10 Brands		87,1

Figure 3 - Top 10 Brands' value share in the Shampoo sub-category in Portugal.

			Demographic Information				Approach to the Hair Care Category																				
			Gender	Age (approx.)					Approach				Category Approach (Rank)				Evaluation Criteria (Rank)				Decision Time (min.)						
	Obs.	Date	Store	F	M	18-25	26-35	36-50	51-65	>65	Article	Brand	Category	Assortment	Shamp	Cond.	Styl.	Deep Condit	Other	Promo	Price	Snell	Labelling (Front)	Labelling (Back)	Other	#	
1 (E.g.)		17/04/17	Page1	X			X							X					Assortment	2		1				40s	x

(continued)

Purchasing Decisions														Observational Annotations		Observer
Purchase		Purchase - Product 1						Purchase - Product 2						Annotations		
Yes	No	Article Number	Brand	Product	Price	Quant.	Promo	Article Number	Brand	Product	Price	Quant.	Promo			
X		5702733	Cien	Óleo de Argão	3,99	1	N								MAP	

Figure 4 - Observation Grid used to record in-store observations.

Appendix 5

Article Number	Brand	Type	Name	Size	Price
8493	Elnett	Styling	Elnett Satin Laca para Cabelo	300 ml	5,99 €
1593	Elvive	Shampoo	Color-Vive; Argila; Óleo; Arginina	250 ml	3,99 €
8478	Garnier Fructis	Conditioner	Hidra Caracóis; Hidra Liso 72h; Força e Brilho	250 ml	3,99 €
8481	Garnier Fructis	Shampoo	Anti-Caspa; Hidra-Caracóis; Força e Brilho	300 ml	3,99 €
1487	Head & Shoulders	Shampoo	Classic; Citrus Fresh; Apple Fresh	270 ml	3,79 €
1488	Head & Shoulders	Shampoo	2 em 1; Menthol Fresh; Prevenção Queda	270 ml	3,79 €
1805	Pantene	Conditioner	Liso & Sedoso; Repara e Protege	230 ml	3,79 €
5994	Pantene	Deep Conditioner	Liso & Sedoso; Repara & Protege	300 ml	6,29 €
1807	Pantene	Shampoo	Classic; 2 em 1; Repara & Protege	270 ml	3,79 €
1808	Pantene	Shampoo	Liso & Sedoso; Youth; Caracóis Perfeitos	270 ml	3,79 €
1809	Pantene	Shampoo	Anti-Caspa; Anti-Caspa 2 em 1; Prevenção Queda	270 ml	3,79 €
1816	Ultra Suave	Conditioner	5 Plantas; Óleo de Abacate e Manteiga de Karité; Camomila	200 ml	3,49 €
1815	Ultra Suave	Shampoo	5 Plantas; Óleo de Abacate e Manteiga de Karité; Camomila	250 ml	3,49 €
2896	Ultra Suave	Shampoo	P/ Crianças	250 ml	3,49 €
8464	Cien	Conditioner	Pro Vitaminas SK4	300 ml	1,59 €
92854	Cien	Conditioner	Reparador Queratina	200 ml	1,99 €
5701491	Cien	Deep Conditioner	Máscara para Cabelo	300 ml	1,99 €
5702733	Cien	Deep Conditioner	Óleo de Argão	100 ml	3,99 €
8197	Cien	Shampoo	Pro Vitaminas SK4	300 ml	1,59 €
58121	Cien	Shampoo	Uso Frequente SK6	500 ml	1,69 €
88436	Cien	Shampoo	Anticaspa SK2	300 ml	1,49 €
92853	Cien	Shampoo	Profissinal Reparador Queratina	250 ml	1,99 €
98881	Cien	Shampoo	Mini Champô ProVitam. Repar.	50 ml	0,99 €
5701507	Cien	Shampoo	Profissional Clássico; Profissional Queratina	900 ml	2,29 €
8173	Cien	Styling	Laca Spray para Cabelo SK12	400 ml	1,59 €
8207	Cien	Styling	Espuma Modeladora Extra Forte SK4	250 ml	1,39 €
8567	Cien	Styling	Gel para Cabelo SK7	150 ml	0,99 €
92855	Cien	Styling	Spray Volume Queratina	250 ml	1,59 €
99842	Cien	Styling	Spray Protetor Calor Queratina	250 ml	1,99 €
5700894	Cien	Styling	Spray Amaciador	400 ml	2,99 €
5703766	Cien	Styling	Cera Mate	100 ml	2,99 €
98883	Cien	Styling	Mini Laca Volume	100 ml	0,99 €
8463	Cien	Shampoo	Pro Vitaminas 2 em 1 SK2	300 ml	1,59 €
106549	Cien	Shampoo	Uso Diário Fruity SK1	300 ml	1,49 €

Figure 5 - Lidl's fixed assortment in the hair care category during the observation period (17th to 30th of April).